

To: Audit and Governance Committee

Date: 29th June 2015

Report of: Head of Financial Services

Title of Report: Statement of Accounts for the Year Ending 31st March 2015

Summary and Recommendations

Purpose of report: To present the Council's Statement of Accounts for the year ending 31st March 2015 to the Audit and Governance Committee.

Key Decision? No

Executive lead member Councillor Ed Turner

Policy Framework: Budget

Recommendation(s): That the Committee note the contents of the Statement of Accounts certified by the Head of Financial Services (Section 151 Officer) prior to their submission to the external auditors.

Appendix A – Statement of Accounts 2014/15

Approval of the Statement of Accounts

- 1 The Statement of Accounts for 2014/15 is attached at Appendix A. The Accounts and Audit Regulations 2011 require that the Council's responsible officer must, no later than 30th June immediately following the year end, sign and date the Statement certifying that it presents a true and fair view of the financial position of the Council at the end of the year to which it relates.
- 2 Following scrutiny by External Audit the authority must then, by 30th September, approve the Statement of Accounts.

Explanation of The Statement

- 3 The Explanatory Foreword to the Statement, shown on pages 7 – 19 of Appendix A attached, explains the more significant features of the

accounts. It is based on the information contained within the Statement and fulfils a similar purpose to a directors' report in company accounts.

Major Changes Affecting the Accounts

- 4 The Council's accounting policies are set out on pages 100-114 of Appendix A, they are largely unchanged from last year. However, there are a number of changes that have taken place over the year which have a material impact on the understanding of the Accounts, these are listed below :

St Aldates Chambers

- On 31st March 2015 the Council purchased the sub lease of St Aldate's Chambers; its administrative base, for £7.5 million. This removes the obligation on the council to pay £300k per annum in rent to the British Airways Pension Fund in favour of a 126 year lease with the freeholder Merton College at a rent of £2,500 per annum.

Westgate Development

- The Council entered into a Development Agreement (DA) with the Westgate Oxford Alliance (WOA), a partnership between Land Securities & Crown Estates, to redevelop the Westgate Centre. The WOA accepted the unconditional DA on 5 February 2015 at which point works on site commenced. The transaction resulted in a net increase in assets of around £41.955 million representing the difference between the old lease on the shopping centre and the new one.
Under the agreement the Council is reimbursed the net income which it would have obtained from the Westgate Car Park (£2.4 million per annum throughout the 3 year development period), which also forms the basis of revenue income to the Council once the development is operational.

Business Rates Retention

- Since 1ST April 2013 funding from Retained Business Rates is directly dependant on the amount of Business Rates collected locally. Total Business Rates collected, after allowing for appeals and losses on collection are split 50/50 between the Billing Authority (Oxford City Council) and Central Government known as the Local and Central Share respectively. As the Billing Authority the Council in turn, distribute the local share between itself and the County Council on an 80/20 basis. A tariff payment is made by the City Council (increased by with inflation each year) to Central Government. The remaining amount is then compared to the Baseline Funding Figure (£5.575 million for 2014/15) and a levy of 50% on the excess is payable to the Government, leaving the balance with the Council.

Business Rates yield can vary due to appeals, losses on collection and business closures or start-ups. Hence the amount of income derived from Business Rates is variable. This risk is now shared between Central Government, Oxford City Council and Oxfordshire County Council in the percentages 50%, 40%, and 10% respectively.

A deadline of 31st March 2015 was put in place for backdated appeals by the Government; consequently, the Council experienced a far higher level of appeals than generally anticipated. The estimated cost to the Collection Fund is £12.8 million. This has pushed the Council into a Safety Net position, which means that its retained business rates income is below 92.5% of the Baseline Funding Figure and the Government will pay the Council the difference £2.1m so that the Council receives an amount equal to the Baseline Funding Figure. However, there is a disparity between the accounting basis for recording transactions and the legislative basis for charging income and expenditure relating to Business Rates to the General Fund. This allows surpluses and deficits on the Collection Fund to be reversed out of the General Fund; however there is no statutory override for the reversal out of Safety Net or Levy Payments. There is therefore a timing difference between these two elements. Due to this, the Council uses an earmarked reserve to smooth the income received in the General Fund.

Any difference between the amount calculated on the NNDR1 Form submitted to Government in January each year and in-year activity forms the National Non Domestic Rates (NNDR) Collection Fund balance for the year and is distributed in subsequent financial years amongst the main preceptors in proportion to precepts. Due to the level of appeals there is a deficit on the NNDR Collection Fund for 2014/15 of £10.5 million (the Council's share is £4.2 million) The Collection Fund deficit will be charged to the General Fund in 2016/17, after it has been included on the NNDR1 for that year, therefore the Council has set aside £3.3 million in an earmarked reserve towards the cost of this Collection Fund Deficit.

Pension Fund

- The cost of past employment benefits to staff have increased in the year ended 31 March 2015.

The liability reported as at 31 March 2014 was £107.3 million. The revised liability as at the 31 March 2015 is £145.3 million. The

increase is due to a number of factors, the most significant of which are actuarial losses of £33.2 million (due to changes in financial assumptions, offset by gains related to the return on fund assets) and net interest costs. More information regarding the Defined Benefit Pension Scheme can be found in note 39 of the Statement attached at Appendix A. Over the past six years the liability has reached £145.6 million.

General Fund Revenue Outturn 2014/15

- 5 The Council set a budget for spending on General Fund services of £24.0 million, to be financed by Grant (£6.3 million), Business Rates (£6.1 million) and Council Tax (£11.6 million).
- 6 The table below summarises the outturn position in the format used for internal reporting.

	Net Approved Budget 2014/15 £000	Net Revised Budget 2014/15 £000	Net Expenditure 2014/15 £000	Variance £000
City Regeneration	(321)	308	(207)	(£15)
Community Services	7,704	8,863	7,967	(896)
Organisational Development & Corporate Services	14,010	14,436	14,169	(267)
Total excluding SLA's & Capital Charges	21,393	23,607	21,929	(1,678)
SLAs and Capital Charges	746	(6,236)	(6,374)	(138)
Corporate Contingencies	1,939	-	-	-
Net General Fund Expenditure	24,078	17,371	15,555	(1,816)
Net Transfers to/(from) Reserves	-	6,687	8,495	1,808
Net Budget Requirement	24,078	24,058	24,050	(8)
Government Funding	6,339	6,339	6,341	2
Business Rates	6,114	6,114	6,114	-
Council Tax	11,787	11,787	11,787	-
Parish Precept	(162)	(182)	(192)	(10)
Total Funding	24,078	24,058	24,050	(8)
Net (Surplus)/Deficit	-	-	-	-
Working Balance	(3,622)	(3,622)	(3,622)	-

- 7 At the end of the year, there was a £1.808 million favourable variance which has been transferred to earmarked reserves:

- 8 The variations are set out below.

City Regeneration

- 9 The directorate had an outturn position of £0.207 million which is a favourable variance of £0.515 million against the revised budget. Major variations include:

City Development - £0.216 million overspent as a result of additional consultancy costs in connection with planning work, offset by Regeneration and Major Projects - £0.784 million additional income generated from commercial property rent reviews and new properties being brought into use.

Community Services

The directorate had an outturn position of £7.967 million, which is a favourable variance of £0.896 million against the revised budget. This was primarily due to a surplus of £0.490 million from off-street car parking, and additional external works income from engineering and building services of £0.386 million within Direct Services.

Organisational Development and Corporate Services

10 The directorate had an outturn position of £14.169 million, which is a favourable variance of £0.267 million against the revised budget. This was primarily due to increased court cost income from Council Tax and Business Rates cases.

SLA's, Capital Charges and Corporate Budgets

11 These charges make up the statutory charges that are required to be made to the revenue accounts to comply with accounting convention such as depreciation, Pension Fund adjustments, revenue expenditure funded from capital under statute, interest and local cost of benefits. The total of all these adjustments resulted in a net favourable variance of £0.138 million.

Housing Revenue Account Revenue Outturn 2014/15

12 The HRA Income and Expenditure Statement shown on page 83 of Appendix A shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practice, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost.

13 The increase or decrease in the year, using the basis for which rents are raised, is shown in the Movement on the Housing Revenue Account Statement, as shown below:

	Budget £000	Actual £000	Variance £000
Net Income	(42,931)	(43,338)	(407)
Expenditure			
Tenancy Management	18,880	16,618	(2,262)
Repairs and Maintenance	10,197	10,407	210
Total	29,077	27,025	(2,052)
Appropriations	13,854	16,313	2,459
Net (surplus)/deficit	-	-	-
Working Balance	(4,000)	(4,000)	-

14 At the end of the year there was a £2.459 million favourable variance the bulk of which; £2.008 million has been transferred to a reserve to fund the HRA Capital Programme in future years. The major variations include:

Net Income -

Additional income from dwelling rents and service charges.

Tenancy Management Cost - £2.3 million underspend due to lower general management costs of £0.8 million, £0.2 million saving in special services, and £1.1 million saving on recharges from Direct Services and contingency items that were not needed.

Repairs and Maintenance - Responsive and Cyclical Repairs overspent due to increased void repair costs.

Earmarked Reserves

15 **General Fund Earmarked Reserves** – As at 31st March 2014 these stood at £28.3 million, as shown on page 41 of the Statement at Appendix A. In 2014/15 the Council made a net transfer into reserves of £3 million bringing the balance to £31.3 million as at 31st March 2015. Key movements included:

Revenue Contribution to Capital Reserve - increased from £6.9 million to £14.5 million during the year in accordance with prior years Strategy. The reserve will be used going forward to support future capital schemes.

Westgate Redevelopment Reserve –£2.5 million was spent in year on the construction of temporary car parking at Oxpens and associated works to accommodate buses at Redbridge Park and Ride. A transfer was made from the reserve to finance the works.

Property Fund Reserve – the Council purchased the long leasehold interest in the property that it occupies in St Aldate's Chambers. The reserve of £7 million held for this purchase was used to finance it.

Dry Recyclate Reserve –the City Council currently uses a recycling facility at Enstone operated by an external contractor who bulks the recyclate and transfers it to a Mixed Recycling Facility at Crayford. Due to variations in prices paid for recyclate the operation is no longer financially viable without the Council paying a disposal fee instead of the current arrangement whereby the Council receives an income. The reserve £1.4million has been created to provide funds to mitigate ongoing financial pressures, including the possibility of building and operating a waste transfer station.

HRA Earmarked Reserves - As at 31 March 2015 these stood at £6.1 million following a net transfer out of the reserves of £2.4 million. The

most notable of the HRA reserves related to HRA Capital Projects which has been established for the funding of the HRA Capital Programme.

Insurance Reserves - as at 31 March 2015 these stood at £1.3 million. They are used to cover uninsured excesses and future liabilities including those arising from the administrative arrangements of the Council's previous insurers Municipal Mutual Insurance (MMI). Of this balance, £1.1 million relates to HRA liabilities and £0.1 million to the General Fund.

Working Balances

- 23 Working Balances at year end include the following :
- a. **General Fund Working Balance** – this is £3.6 million as at 31st March 2015 and has remained static since 31st March 2013.
 - b. **HRA Working Balance** – this is £4.0 million as at 31st March 2015, with no increase during the year.

Contingencies and Provisions

- 24 As at 31 March 2015 the Council has made financial provision of £7.9 million for expenditure likely to be incurred at some point in the future. Included in this figure are the following amounts:

Rent Deposit Scheme – £1.4 million - this provision covers the potential loss on deposits paid on behalf of tenants placed in private rented properties by the Council.

Singletree Repairs and Maintenance - £0.3 million – a provision to cover major works in respect of a leaseholder property. When the leasehold property is resold a percentage of the resale value is paid into the provision.

Council Tax Court Costs - £0.3 million - This provision is against outstanding court costs that have been raised against Council Tax arrears.

Provision for NNDR Appeals – £5.6 million - Following the reform of Business Rates, the risk of appeals is shared between Central Government, the Council and Oxfordshire County Council. This relates to the Council's potential liability for the cost of appeals. The Council's share of the overall Collection Fund Balance has been transferred to Earmarked Reserves.

Capital Outturn 2014/15

- 25 The Council's capital budget for 2014/15 was £63.4 million, actual spend was £48.7 million; a variation of £14.7 million. Notable variances are:

	£ million
• Superconnected Cities	4.018
• Flood Alleviation at Northway & Marston	0.268
• Rosehill Community Centre	3.250
• Community Centres	0.344
• Barns Road Car Park	0.208
• Equity Loan Scheme for Teachers	0.250
• Property Acquisitions	(0.953)
• Leisure Centre improvement work	0.443
• Oxford Spires Academy	0.500
• Develop new burial space	0.385
• Vehicles and Plant replacements	1.100
• Car parking at Oxpens	0.543
• Seacourt Park & Ride extension	0.360
• External doors	0.201
• Windows	0.233
• HCA new build	1.671
• Great estates	0.286
• Kitchens & bathrooms	(0.270)
• Major voids	0.432
• Rewires	0.347

Funding the Capital Programme

26 General Fund Capital expenditure totalled £27.6 million and was funded through a combination of Capital Receipts (£15.7 million), Government Grants (£1.6 million), Revenue Reserves (£9.5 million) and Developer Contributions (£0.8 million).

27 The Housing Capital spend totalled £21.1 million and was financed from Capital Receipts (£2.1 million), Housing Revenue Resources (£18.8 million) and Grants and Contributions (£0.2 million).

Icelandic Banking Losses - Update

28 In October 2008 a number of Icelandic banks filed for administration. The Council held deposits with two of these banks, Glitnir and Heritable of £1.5 million and £3 million respectively. Developments over the last year are as follows:

- **Glitnir** - A final repayment of the remaining Icelandic Krona (ISK) has now been received via an auction of the currency. A small remaining balance of approx. £200,000 remains, with a potential to recover this in due course
- **Heritable Bank** - No further repayments have been received and there remains £179,000 outstanding. Recovery is uncertain

The Collection Fund

29 The Collection Fund is the statement reflecting the Council's statutory obligation as a Billing Authority to maintain a separate Collection Fund. The Statement shown on page 89 of Appendix A shows the transactions the Council as a Billing Authority has undertaken in relation to, collection from taxpayers and distribution to local authorities and Government of Council Tax and Non-Domestic Rates.

30 The Collection Fund Balance at the end of the year was an £8.6 million net deficit. This represents a £10.5 million deficit on Business Rates and a £1.9 million surplus on the Council Tax respectively. The Council Tax balance is shared between Oxford City Council, Oxfordshire County Council, and the Police and Crime Commissioner (Thames Valley) in proportion to their precept. The Business Rates balance is shared between Central Government, Oxford City Council and Oxfordshire County Council in the percentages 50% / 40% / 10% respectively.

	Council Tax 2014/15 £000	Business Rates 2014/15 £000	Total 2014/15 £000	Council Tax 2013/14 £000	Business Rates 2013/14 £000	Total 2013/14 £000
Oxford City Council	(320)	4,201	3,881	(234)	599	365
Oxfordshire County Council	(1,387)	1,050	(337)	(1,018)	150	(868)
Police and Crime Commissioner (Thames Valley)	(184)	-	(184)	(135)	-	(135)
Central Government	-	5,252	5,252	-	750	750
Total	(1,891)	10,503	8,612	(1,387)	1,499	112

31 The main reasons for the surplus on Council Tax Collection Fund is that whilst the allowance for non-collection was increased with the introduction of the Council Tax Reduction Scheme, collection rates remained as per previous years. Additionally proactive work was undertaken during the year to remove unqualifying exemptions and discount entitlements resulting in increased income to the Council.

32 The main reason for the Business Rates Collection Fund deficit is the estimated cost of backdated appeals being charged to the collection fund in 2014/15.

Financial Implications

33 These are covered within the main body of the report.

Legal Implications

34 These are set out in paragraph one above.

Risk Implications

35 There are no risks associated with the recommendations in this report.

Communication

36 Members of the public and local government electors have certain rights in the audit process: -

37 From Monday 6th July 2015 to Friday 31st July 2015 between 9.30am and 4.30pm any person may inspect the accounts of the Council for the year ended 31st March 2015 and certain related documents (comprising books, deeds, contracts, bills, vouchers and receipts) at the address given below. They may also make copies of the accounts and documents.

38 From 9.30am on Monday 3rd August 2015 until the conclusion of the audit process, a local government elector for the area of the Council or his / her representative, may object to the Council's accounts asking that the auditor issue a report in the public interest (under section 8 of the Audit Commission Act 1998) and / or apply to the court for a declaration that an item in the accounts is contrary to law (under section 17 of the Audit Commission Act 1998). Written notice of a proposed objection and the grounds on which it is made must be sent to the auditor at the address given below.

39 The address for communications, inspections, and objections in relation to the audit and inspection of accounts is: - Oxford City Council, St Aldates Chambers, OX1 1BX.

The address of the Council's external auditors is: Ernst & Young LLP, Apex Plaza, Forbury Road, Reading, RG1 1YE.

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Background papers: None